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21 September 1984

MEMORANDUM FOR: William Triplett, USTR

FROM :   
DDI/EURA/EE/CE

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SUBJECT : Request for Background Information on  
US-Hungarian Trade

1. Attached please find the information you requested per  
telephone yesterday.

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Attachment:  
as stated

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EURM 84-10195

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Trends in US-Hungarian Trade and Hungarian Economic PerformanceEconomic Policies and Performance

Budapest did not escape the 1981-82 East European debt crisis despite its market oriented economic reforms and self-imposed austerity measures. The economy is currently in the sixth year of an adjustment program designed to improve its payments position and avoid debt rescheduling by holding down the growth of domestic demand and increasing exports. Investment spending--slated this year to decline for the fifth consecutive year--has borne the brunt of domestic adjustment, while the government has managed to protect the consumer from a drop in living standards. GNP meanwhile has stagnated since 1979 and declined slightly in 1983. Although Budapest's record on boosting hard currency exports has been at best mixed, the government has displayed considerable ingenuity in earning hard currency--for example, by reexporting Middle Eastern oil to the developed West and by exporting hard goods to the USSR. Hungary faces at least two or three more years of austerity to meet heavy debt repayments, but is moving in the right direction to eventually revitalize its economy. Among other things, Budapest is moving ahead with its economic reform program to rationalize prices and wages, decentralize inefficient monopolies, and improve enterprise management. [redacted]

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Continued Overtures to West Likely

Regardless of Budapest's skill in managing its economy, it will remain extremely vulnerable to external shocks and heavily dependent on Western trade and financial support for the foreseeable future. To this end, the Hungarians will continue to pursue all possible export markets and sources of credit from the United States, Japan, the EC and the LDCs. Specific bilateral trade issues which the Hungarians are likely to raise with US policymakers include the possibility of multi-year MFN, continued access to CCC credits, and possibly Eximbank loans and guarantees. The Hungarians also are likely to push for a relaxation of Cocom restrictions on technology and equipment which they claim they need to modernize their production structure. [redacted]

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Bilateral Trade Trends

US-Hungarian trade relations have been favorable in recent years: the most important factor has been the 1978 bilateral trade agreement extending most favored nation (MFN) tariff treatment to Hungary. According to US statistics, bilateral trade has grown 64 percent since 1978, from \$172 million to \$282 million in 1983. Trade stagnated at around the \$200 million level in the early 1980s--partly as a result of Hungary's import restrictions but picked up by over 30 percent last year. US statistics show that US exports to Hungary last year totaled \$110 million, while imports amounted to \$172 million. Strongest US

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sales were recorded in tractor parts, other agricultural machinery, soya meal and animal feed, industrial machinery, chemicals, and hides. The primary Hungarian exports to the United States were canned hams, buses and parts, electrical equipment, apparel, shoes and metals. Under World Bank sponsorship, Budapest is developing several major projects: agricultural mechanization and grain storage, energy diversification; export development; and oil and gas development. These investments offer the best opportunities for US companies for technology and equipment sales in the years immediately ahead. [REDACTED]

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Request for Background Information on US-Hungarian Trade

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